

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

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AGRE-00 /093 W

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R 081416Z SEP 77

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC 2395

INFO AMEMBASSY BRUSSELS

AMEMBASSY ANKARA

AMEMBASSY NICOSIA

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BRUSSELS FOR USEEC

EO 11652: NA

TAGS: EGEN, GR

SUBJ: MINISTER OF COORDINATION PAPALIGOURAS SPEAKS AT OPENING OF
THESSALONIKI FAIR

REF: ATHENS 8212

1. COORDINATION MINISTER PAPALIGOURAS, SUBSTITUTING FOR AILING
PRIME MINISTER CARAMANLIS, GAVE TRADITIONAL "STATE OF THE ECONOMY"
SPEECH OPENING THESSALONIKI INTERNATIONAL TRADE FAIR ON SEPTEMBER
3. POLITICAL ASPECTS OF HIS SPEECH HAVE BEEN REPORTED SEPARATELY
(REFTEL) AND ECONOMIC HIGHLIGHTS ARE AS FOLLOWS.

2. PAPALIGOURAS OPENED BY CHARACTERIZING STATE OF GREEK ECONOMY AS
"RELATIVELY GOOD," ALTHOUGH ADMITTEDLY SOMEWHAT SHORT OF GOG
EXPECTATIONS IN SOME SECTORS. GREEK ECONOMIC DEVELOPMENT HAS BEEN
SATISFACTORY, HE SAID, DESPITE ADVERSE ECONOMIC IMPACT OF "INTER-
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NATIONAL CRISES" AND SPECIAL PROBLEMS FACING COUNTRY SUCH AS QUAR-
REL WITH TURKEY OVER CYPRUS; THE BURDEN OF INCREASED DEFENSE EX-
PENDITURES; THE LEGACY OF POOR ECONOMIC CONDITIONS FOLLOWING THE
JUNTA; AND THE NEED TO ADJUST GREEK ECONOMIC AND SOCIAL STRUCTURE
TO CONDITIONS PREVAILING IN THE MORE-DEVELOPED INDUSTRIAL COUNTRIES.

3. NATIONAL INCOME: GNP AT MARKET PRICES IS EXPECTED TO GROW IN

REAL TERMS BY 5 PERCENT IN 1977, LESS THAN THE PREVIOUSLY ESTIMATED 6 PERCENT. HE STATED, HOWEVER, THAT THIS GROWTH WOULD STILL MEET THE GOG TARGET OF A GROWTH RATE 2 PERCENT HIGHER THAN THAT ANTICIPATED FOR THE EC AS A WHOLE.

4. BALANCE OF PAYMENTS: JANUARY - JULY 1977 CURRENT ACCOUNT DEFICIT AMOUNTED TO \$817 MILLION AS AGAINST AN \$807 MILLION DEFICIT IN 1976, AND IT IS ANTICIPATED THAT BY THE END OF THE YEAR IT WILL BE AT MANAGEABLE LEVELS AS IN 1976 WHEN IT REACHED \$1,091 MILLION. FOREIGN EXCHANGE RESERVES WILL BE STRENGTHENED AND DESPITE INCREASED DEFENSE EXPENDITURES THE FOREIGN EXCHANGE POSITION OF THE COUNTRY WILL REMAIN STRONG. NET INVISIBLES DEVELOPED SATISFACTORILY, ESPECIALLY SHIPPING REMITTANCES AND TOURISM RECEIPTS WHICH WERE UP 35.4 AND 21.1 PERCENT RESPECTIVELY FOR THE FIRST SEVEN MONTHS OF 1977. CURRENT ACCOUNT DEFICIT WILL BE COVERED MAINLY BY NET INFLOW OF PRIVATE CAPITAL PARTICULARLY BY DEPOSITS IN FOREIGN EXCHANGE WHICH SHOWED A NET INCREASE OF \$507 MILLION IN THE FIRST SEVEN MONTHS OF 1977 AS AGAINST A NEW INCREASE OF \$370 MILLION OF THAT OF 1976. STRUCTURAL IMPROVEMENT OF TRADE DEFICIT REPRESENTS A MAJOR PROBLEM BUT, HE ADDED, IT IS NOTEWORTHY THAT GREECE HAS EXPANDED EXPORTS TO NEAR AND MIDDLE EAST AND AFRICA BY 346 PERCENT, FROM \$109 MILLION IN 1973 TO \$487 MILLION IN 1976.

5. INVESTMENT: PAPALIGOURAS ACKNOWLEDGED THAT THE INVESTMENT PICTURE THUS FAR THIS YEAR WAS NOT SATISFACTORY. ALTHOUGH THE GROWTH OF INVESTMENTS IS EXPECTED TO BE SLIGHTLY HIGHER THAN THE 6.5 PERCENT LIMITED OFFICIAL USE

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RATE OF GROWTH ACHIEVED LAST YEAR AND WILL BE BETTER THAN THE ANTICIPATED 1.9 PERCENT AVERAGE INCREASE OF THE EC COUNTRIES, INVESTMENT IN THE MANUFACTURING AND HANDICRAFT SECTORS IS LAGGING AND THE GOG WILL SOON ANNOUNCE NEW MEASURES TO PROMOTE INVESTMENTS IN THESE AREAS. PRIVATE DEPOSITS ARE EXPECTED TO INCREASE BY 85 BILLION DRACHMAE IN 1977 AS AGAINST 71 BILLION IN 1976, WHILE CREDITS TO THE PRIVATE SECTOR ARE EXPECTED TO INCREASE BY 90 BILLION DRACHMAE IN 1977 AS AGAINST A 75 BILLION DRACHMAE INCREASE IN 1976. FOLLOWING INSTRUCTIONS OF THE PRIME MINISTER, FINANCING OF THE PRIVATE SECTOR, AND ESPECIALLY OF PROJECTS IN THE BORDER AREAS, IS TO BE ENCOURAGED.

6. PUBLIC FINANCE: PAPALIGOURAS POINTED OUT THAT BETWEEN 1974 AND 1977

STATE BUDGET EXPENDITURES NEARLY DOUBLED. REGULAR BUDGET INCREASED FROM 104 TO 200 BILLION DRACHMAE AND INVESTMENT BUDGET FROM 23 TO 45 BILLION DRACHMAE. STATE BUDGET, BOTH REGULAR AND INVESTMENT, PROVIDED FOR DEFENSE EXPENDITURES 15.1 BILLION DRACHMAE IN 1973; 23.9 IN 1974; 36.9 IN 1975; 46.9 IN 1976; AND 53.1 BILLION DRACHMAE AT LEAST IN 1977 OR 6.5 PERCENT OF GREEK GNP (I.E., NATIONAL) INCOME AS AGAINST AN AROUND 4 PERCENT AVERAGE FOR THE EC COUNTRIES. FOREIGN EXCHANGE NEEDS FOR THOSE DEFENSE EXPENDITURES

AMOUNTED TO \$137 MILLION IN 1973; \$316 MILLION IN 1974; \$458 MILLION IN 1975; \$448 MILLION IN 1976; AND IS EXPECTED AT LEAST TO REACH \$550 MILLION IN 1977 PLUS SOME CREDITS AND IMPORTS OF SUPPLIERS OF THE GREEK ARMED FORCES. PAPALIGOURAS JUSTIFIED HIGH DEFENSE BUDGET AND FOREIGN EXCHANGE EXPENDITURES BY SAYING THAT "AT A TIME WHEN TENSION IN OUR FOREIGN RELATIONS EXISTS, NOT ONLY IS THE STRENGTH OF THE ECONOMY THE FOUNDATION FOR DEFENSE, BUT DEFENSIVE STRENGTH IS ALSO, IN REVERSE, THE FOUNDATION OF THE ECONOMY." HE ALSO CLAIMED THAT "SPECIAL CONTRIBUTIONS" AND TAX REFORMS HAD NOT ONLY SHIFTED A GREATER PORTION OF THE TAX BURDEN TO THE MORE AFFLUENT BUT HAD CONTRIBUTED AN ADDITIONAL 41 BILLION DRACHMAE TO THE GOG'S REGULAR BUDGET.

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FM AMEMBASSY ATHENS
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7. SOCIAL POLICY: DURING 1975-1977 GOG TRANSFERRED 87.3 BILLION DRACHMAE TO THE AGRICULTURAL SECTOR TO BOOST ITS REAL INCOME WHICH STAGNATED DURING THAT PERIOD. REAL HOURLY WAGES IN INDUSTRY INCREASED BY 33.6 PERCENT DURING THAT PERIOD WHILE REAL MINIMUM WAGES INCREASED BY 15.7 AND 27.1 PERCENT FOR MEN AND WOMEN RESPECTIVELY.

8. EC: PAPALIGOURAS REITERATED GOG DETERMINATION TO JOIN THE EC, NOTING THE ECONOMIC AND POLITICAL BENEFITS THAT WOULD ACCRUE FROM ACCESSION. HE STRESSED, HOWEVER, THAT ENTRY NEGOTIATIONS ARE EXPECTED TO BE DIFFICULT.

9. DOMESTIC REACTION: OPPOSITION LEADER MAVROS STRONGLY CRITICIZED THE ALLEGEDLY UPBEAT TONE OF PAPALIGOURAS' PRESENTATION, DECLARING

THAT THE BASIC PROBLEMS OF THE ECONOMY--THE RATE OF INFLATION, THE GAP IN THE BALANCE OF PAYMENTS, THE UNEVEN DISTRIBUTION OF INCOME AND TAX BURDEN, THE SLACKENING OF INDUSTRIAL ACTIVITY, INSUFFICIENT INFRASTRUCTURE IN THE AGRICULTURAL SECTOR--REMAIN OR ARE WORSENING. HE ADDED THAT INCREASED MILITARY EXPENDITURES CAN NO LONGER BE USED AS AN EXCUSE BY THE GOG TO COVER ITS INABILITY TO DEAL WITH LIMITED OFFICIAL USE

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THE GREAT PROBLEMS OF THE COUNTRY. PAPALIGOURAS LATER WAS PROMPTED TO RESPOND TO CRITICS "WHO SOUGHT TO DISTORT THE TRUE MEANING OF (HIS) REMARKS" BY REITERATING THAT THE COUNTRY'S ECONOMIC CONDITION WAS GOOD--LESS GOOD PERHAPS THAN WAS ANTICIPATED AT THE BEGINNING OF THE YEAR BUT FAR BETTER THAN THE PERFORMANCE OF THE OTHER WESTERN EUROPEAN ECONOMIES. "BEARING THIS IN MIND," HE SAID, "WE SHOULD FEEL PLEASED ABOUT THE COUNTRY'S ECONOMIC STATE." COMMENT: PAPALIGOURAS REVIEW OF ECONOMIC DEVELOPMENTS, IN OUR VIEW, REALISTICALLY ASSESSES THE STRENGTHS OF THE ECONOMY WHILE FRANKLY ACKNOWLEDGING LOWER RATES FOR GNP GROWTH AND INVESTMENT AND HIGHER RATES FOR INFLATION. MAJOR AREAS OF CONCERN CONTINUE TO BE INFLATION, WHICH CAN UNDERMINE GOG INCOMES POLICY, AND LACK OF INDUSTRIAL INVESTMENT. MILLS

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